

THE TELECOM YEAR IN REVIEW

During the past year, many of the Illinois Commerce Commission's actions were in response to the passage of the Federal Telecommunications Act of 1996 and changing market conditions for local telecommunications services. The Commission's determinations were guided by the policy in Section 13-103(b) of the Public Utilities Act that competition should be permitted to function as a substitute for certain aspects of regulation when consistent with the public interest. Notable events include the following:

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?? **Universal Service.** Section 13-301 of the Public Utilities Act requires the Commission to investigate the necessity of, and if appropriate, establish a program that provides for a reduction of access line charges, connection charges, or any other alternative to increase the accessibility of telephone service for low income residential customers. The Commission completed Phase I of its Universal Service Docket (Case No. 00-0233), intended to meet these requirements. The Commission has set a schedule for Phase II of the Universal Service Docket to meet all requirements of Section 13-301 by October 1, 2001.

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?? **SBC/Ameritech Merger Compliance.** The Commission concentrated on the monitoring and review of the merger conditions that resulted from the Illinois Commerce Commission's approval of the SBC/Ameritech merger in 1999. The review of merger costs and savings attributed to the SBC/Ameritech merger is a major undertaking. The Commission ordered that merger costs and savings be tracked (aided by an independent auditor) on an actual basis, with 50% of the savings being passed through to consumers. Phase I of the SBC/Ameritech tracking of merger costs and savings has taken the major part of the year 2000 to complete, with the issuance of the final report January, 2001. The Request for Proposal to hire an independent, third party auditor, for Phase II has recently been issued. Other merger conditions that continue to play an important role are those involving a collaborative process concerning the Operations Support Systems (OSS) that Ameritech is required to provide in order to interface with Competitive Local Exchange Carriers (CLECs) as detailed below.

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?? **Operations Support Services Collaborative with SBC/Ameritech.** Pursuant to Condition 29 of the SBC/Ameritech Merger Order dated September 23, 1999 in Docket 98-0555 the ICC has worked throughout the past year with SBC/Ameritech and Illinois CLECs to improve the Operation Support Systems (OSS) and business processes of SBC/Ameritech which interface with Illinois CLECs. On April 4, 2000 the Commission accepted SBC/Ameritech's Plan of Record (POR) which provided an overall assessment of their existing OSS interfaces, business processes and rules, and their plans for development and deployment of enhancements and new functionality for their OSS.

From May through August 2000, the ICC facilitated a series of collaborative workshops with approximately 14 CLECs and SBC/Ameritech with the goal of obtaining written agreement between the parties on the future enhancements for SBC/Ameritech's Illinois

OSS interfaces and business requirements identified in their POR. Through the hard work of all parties involved significant progress was made during these sessions.

On September 1, 2000 the parties filed a joint petition of arbitration with the Commission on the 20 remaining items which could not be resolved in a collaborative manner. During the course of the arbitration approximately 10 of the issues were settled by the parties. As of December 31, 2000 the Commission was in the process of reviewing the proposed order. The final order is scheduled to be released at the end of January 2001. In 2001 the ICC will monitor SBC/Ameritech's commitments as detailed in their POR and the final order in the arbitration proceeding. In addition the ICC has hired KPMG Consulting LLC to conduct an independent third party test or review of SBC/Ameritech's Illinois OSS and business process which interface with Illinois CLECs. This review should allow the ICC to evaluate SBC/Ameritech's Illinois level of performance regarding their wholesale operations.

The goal of the ICC has been and will continue to be to encourage competition on the local level. Ultimately the ICC wants all Illinois consumers to be able to choose from multiple providers for their local telecommunications services.

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?? **GTE/Bell Atlantic (Verizon) Merger Compliance.** As a condition of the GTE / Bell Atlantic merger (which spawned the new corporate company, Verizon) the Commission has begun working with Verizon to reach final and approved wholesale service, Unbundled Network Element, Interconnection, Transport, and Termination rates. To date, Verizon continues to meet all merger conditions, including a general rate reduction of just over \$10 million which was implemented as scheduled after the merger was consummated on June 3, 2000.

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?? **Acquisitions.** In addition to these mergers, Verizon completed the sale of 100 GTE exchanges in Illinois to Citizens Telephone Company of Illinois in the year 2000. Finally, Global Crossing Ltd. is in the process of selling its local exchange properties in Illinois to Citizens Telephone Company. These properties were a part of Frontier Communications prior to being purchased by Global Crossing. Both of these transactions were reviewed by this Commission before approval of the sales was granted.

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?? **Service Quality.** Paramount this year was the outcry over the deterioration of SBC/Ameritech's service quality. The ICC has been aware of SBC/Ameritech Illinois' service quality difficulties, particularly for installation and repair. Condition 23 of the SBC/Ameritech Illinois merger case (Docket 98-0555) requires the company to provide Out of Service over 24 hours at a 5% maximum. Having failed that standard in calendar year 2000, the company has to provide \$30 million in credits distributed among all customers. The ICC is also planning to review the company's service quality and incentives in the context of the alternative regulation review, Docket 98-0252, ascertaining that installation and repair problems have adequate financial remedies. Ameritech agreed

to maintain service quality levels as a part of its petition for an alternative form of regulation. In the year 2000, SBC/Ameritech failed to meet the quality of service standards that it had committed to and as a result has had to pay penalties. Ameritech's service quality problems are currently being reviewed by the Commission.

The ICC has approved one revised Code Part 730 in Docket 98-0453 in September 2000, and immediately initiated another rulemaking (Docket 00-0596) to ascertain that all companies are using the same definition of "out of service" and "installation." Code Part 730 already applies equally to both ILECs and CLECs.

?? **Emergency Services.** During the year 2000, an important event occurred regarding 9-1-1 services which increased Public Safety for all of the citizens of Illinois. On July 1, 2000, businesses which utilize Private Branch Exchange (PBX) or Centrex phone systems were required to provide to the local Public Safety Answering Point (PSAP) a location and call back phone number of a 9-1-1 call made from within the business facilities on a 40,000 square foot basis. Prior to the enacting legislation and subsequent Commission developed Code Part 726, when a 9-1-1 call was placed from a large facility, the only information that was provided to the PSAP was the main street address of the building and did not include a specific area or floor. Compliance with this important legislation is now an important issue facing the Commission. With the addition of the specific information of the call being provided to the PSAP, the time to locate and provide the required emergency services will be reduced and therefore improved.

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?? **Interconnection Agreements.** Improving the quantity and quality of interconnection arrangements provided to competitive local exchange carriers (CLECs) is of paramount importance in order to enable them to compete with established incumbent local providers. The ICC approved 137 negotiated, interconnection agreements between Ameritech Illinois and competing carriers (including Verizon and many other competitive local exchange carriers). The interconnection agreements established rates for unbundled network elements as well as interconnection and collocation arrangements. Expanding and improving the collocation services provided to CLECs through collocation tariffs is an important step in the development of competition. Tariffs for other wholesale services provided to CLECs were revised as a result of a collaboration between Commission staff members and the involved companies. A report summarizing the results of the interconnection collaborative processes established by the Commission in its Order approving the SBC/Ameritech merger was issued by Commission staff.

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Alternative Regulation. Approval of the annual update to Ameritech Illinois' price caps consistent with the alternative regulation plan adopted in October 1994. The year 2000 review resulted in a \$30 million rate reduction. The total decrease in rates thus far for Illinois customers has been \$207 million. In 2000, the Commission opened a docketed proceeding in order to conduct an intensive review of Ameritech's Alternative Regulation plan.

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?? **Reciprocal Compensation.** Reciprocal compensation (payments exchanged between local service providers to cover costs incurred in completing local calling) is another important issue that is being addressed. The Commission ruled on reciprocal compensation issues in several negotiated arbitration proceedings this year, reaffirming its prior determinations that Internet Service Provider-bound data traffic is jurisdictionally intrastate, and subject to reciprocal compensation along with all other local traffic. The Commission commenced a rulemaking, to be completed in 2001, that will reexamine and potentially revise reciprocal compensation rate levels and structures for all local exchange providers in Illinois. The FCC is also expected to address this contentious issue.

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Introduction

The following report for 2000 was prepared to meet the requirements of the Public Utilities Act (PA-84-617). Section 13-801 of this Act states that “the Commission shall prepare and issue an annual report on the status of the telecommunications industry and Illinois regulation thereof.”

Section 13-801 contains five subsections ((a) through (e)) on which the Commission is asked to report. This report is divided into five main parts, one for each subsection of Section 13-801 that is to be addressed. This is consistent with the formats adopted in prior reports.

During 2000, the following persons (listed alphabetically) served as members of the Illinois Commerce Commission.

Terry S. Harvill

Edward C. Hurley

Ruth K. Kretschmer

Richard E. Kolhauser

Richard L. Mathias

Mary Frances Squires

I. Section 13-801(a)--Review of Regulatory Decisions

(a) A review of regulatory decisions and actions from the preceding year and a description of pending cases involving significant telecommunications carriers or issues.

In 2000, the Illinois Commerce Commission continued its efforts to balance effective oversight with minimal regulatory burden to those companies under its jurisdiction. Section 13-103 of the Public Utilities Act mandates that the Commission balance the concerns of consumers with the competitive interests of the telecommunications companies it regulates. The Illinois Commerce Commission issued approximately 262 orders in docketed cases relating to telecommunications and considered 1,216 individual company tariffs.

Significant orders that were approved in 2000 include the following:

- 92-0275 Illinois Commerce Commission, On Its Own Motion
Procedures concerning the rates, terms, and conditions applicable to
Customer Owned Pay Telephone and Operator Service Providers.**
On June 27, 2000, the Commission adopted Part 771, "Pay Telephone
Providers". The rules provide terms and conditions of service for pay telephone
providers.
- 97-0601/ Illinois Commerce Commission, On Its Own Motion -vs- Illinois Bell
97-0602/ Telephone Company; GTE North Incorporated; GTE South Incorporated;
97-0516 Illinois Consolidated Telephone Company; Central Telephone Company of
Illinois; Adams Telephone Co-Operative; Alhambra-Grantfork Telephone
Company; Cambridge Telephone Company; Cass Telephone Company; CR
Telephone Company; Crossville Telephone Company; the Egyptian
Telephone Cooperative Association, Inc.; El Paso Telephone Company;
The Flat Rock Telephone Co-op, Incorporated; Geneseo Telephone
Company; Grafton Telephone Company; Gridley Telephone Co.; Hamilton
County Telephone Co-op; Harrisonville Telephone Company; Henry
County Telephone Company; Home Telephone Co.; LaHarpe Telephone
Company; Leaf River Telephone Company; Madison Telephone Company;
Marseilles Telephone Company, The McDonough Telephone Cooperative,
Inc.; McNabb Telephone Company; Metamora Telephone Company; Mid
Century Telephone Cooperative; Montrose Mutual Telephone Company;
Moultrie Independent Telephone Company; New Windsor Telephone
Company; Odin Telephone Exchange, Inc.; Reynolds Telephone Company;
Shawnee Telephone Company, Inc.; Tonica Telephone Company; Viola
Home Telephone Company; Wabash Telephone Cooperative, Inc.;
Woodhull Community Telephone Company; Yates Telephone Company**

Investigation into non-cost based access charge rate elements in the intrastate access charges of incumbent local exchange carriers in Illinois.

and

Illinois Commerce Commission, On Its Own Motion - Investigation into implicit universal service subsidies in intrastate access charges and to investigate how these subsidies should be treated in the future.

and

**Illinois Commerce Commission, On Its Own Motion
Investigation into the reasonableness of the LS2 rate of the Illinois Bell Telephone Company.**

The Commission's Order required Ameritech and GTE to base access charges on cost plus a reasonable return on capital.

98-0453

**Illinois Commerce Commission, On Its Own Motion
Revision of 83 Illinois Administrative Code Part 730.**

On August 9, 2000, the Commission adopted revisions to Part 730, "Standards of Service for Local Exchange Telecommunications Carriers". The rules provide terms and conditions of service for local exchange carriers offering or providing either competitive or noncompetitive telecommunications services.

99-0412

**Geneseo Telephone Company
Petition for Authority to Eliminate The Un-timed One-way Extended Area Service Rate from Geneseo Telephone Company's Exchanges to Ameritech Illinois' Moline and Rock Island Area Exchanges.**

Geneseo Telephone Company ("Geneseo") sought approval, pursuant to Section 13-406 of the Public Utilities Act, for the elimination of one-way extended area service ("EAS") from its Green River and Geneseo exchanges to Ameritech Illinois' exchanges in the Rock Island and Moline areas. The Citizens Utility Board ("CUB") and two customers intervened and opposed the petition. In an Interim Order entered on November 1, 2000, the Commission found that the customer input received in response to a properly conducted postcard survey of affected customers would be a useful tool in evaluating the public interest standard within the meaning of Section 13-406. Therefore, the Interim Order directed that such a survey be conducted, and that the results be presented in the docket for the parties' and Commission's consideration in evaluating whether or not Geneseo's proposal was in the public interest.

99-0593

Illinois Commerce Commission On Its Own Motion -vs- Illinois Bell Telephone Company Investigation of construction charges

As a result of certain information brought to light in Docket No. 99-0525, the Commission initiated this investigation into Illinois Bell Telephone Company's ("Ameritech") charges for special construction activities performed to provide unbundled network elements to competitors. In an August 15, 2000 order, the Commission concluded that certain charges assessed by Ameritech pursuant to its special construction policy constituted double recovery of costs and that

Ameritech's special construction policy discriminates against competitors in the assessment of special construction charges for loop conditioning.

00-0615 Illinois Bell Telephone Company

Proposed expansion of collocation tariffs.

The Commission reviewed tariffs filed by Ameritech under which CLECs will collocate equipment to establish interconnection arrangements. The Commission determined, inter alia, that: Ameritech was not required to convert virtual collocation arrangements into physical collocation arrangements; that Ameritech's cost studies were seriously flawed; and that Ameritech's proposal for provisioning collocation space was reasonable.

00-0027

Focal Communications Corporation of Illinois

Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Illinois Bell Telephone Company d/b/a Ameritech Illinois.

The Commission's decision arbitrated five issues. Two of the issues concern reciprocal compensation. The Commission concluded that Focal is entitled to be compensated for the cost of terminating local calls to Focal's customers including Internet Service Providers ("ISPs"), at Ameritech's tandem rate of \$0.005175 per minute. The Commission determined that a proceeding should be initiated to address the issue of reciprocal compensation, and noted that the reciprocal compensation rate for ISP calls approved in its decision may be subject to an adjustment, based on the ultimate conclusion reached in the reciprocal compensation proceeding.

00-0260

Illinois Bell Telephone Company

Annual Rate Filing for Noncompetitive Services Under an Alternative Form of Regulation.

Under the terms of the alternative regulation plan adopted in Dockets 92-0448/93-0239 Consolidated ("Alt Reg Order"), rates for non-competitive services are tied to an index. Illinois Bell Telephone Company ("IBT") is required to make an annual filing on, or before, April 1st of each year which, inter alia, proposes for Commission approval, a Price Cap Index ("PCI") to be effective on July 1st of the same year. On March 31, 2000, IBT submitted its sixth Annual Rate Filing in compliance with the Alternative Regulation Order.

The order entered in this matter addressed the recurring issue of Gross Domestic Product Price Index ("GDPPI") which is used in the computation of the PCI. The order also addressed the issue of the use of an appropriate old Actual Price Index ("API") value when making the comparison analysis between the new API for the four noncompetitive baskets and PCI. Finally, the order addressed the concern about the examination of merger related costs or savings, how that issue impacts an annual rate filing docket and how the issue should be resolved.

00-0332 Level 3 Communications, LLC
Petition for arbitration pursuant to Section 252(b) of the Federal Telecommunications Act of 1996, to Establish an Interconnection Agreement with Illinois Bell Telephone Company d/b/a Ameritech Illinois.
This case involves a 19 point arbitrated dispute between Level 3 and Ameritech. The Commission's decision considered a variety of issues, ranging from the definition of local call for reciprocal compensation to the length of the agreement. Other resolutions included the amount of deposits required, third party property rights, assignments, extended enhanced loops, Nxx codes, points of interconnection and the availability of "dark" fiber.

Senate Bill 700 Complaints

00-0107 McLeodUSA Telecommunications Services, Inc. -vs- Illinois Bell Telephone Company (Ameritech)
Complaint against Illinois Bell Telephone Company d/b/a Ameritech Illinois under Sections 13-514 and 13-515 of the Public Utilities Act concerning the imposition of special construction charges and seeking emergency relief pursuant to Section 13-515(e).

00-0219 21st Century Telecom of Illinois, Inc. -vs- Illinois Bell Telephone Company (Ameritech)
Complaint against Illinois Bell Telephone Company d/b/a Ameritech Illinois under Sections 13-514 and 13-515 of the Public Utilities Act and seeking emergency relief pursuant to Section 13-515(e).

During 2000, the Commission entered orders approving 137 negotiated, interconnection agreements. In addition, the Commission granted certificates of exchange service authority to 45 carriers to provide local exchange service in competition with the incumbent LECs.

In addition to docketed cases, regulatory changes can be made through companies' tariff filings, either as a result of a Commission action in a docket or as company-proposed changes to their tariffs. After Staff and Commission review, the Commission allowed 1,216 tariff filings to take effect in 2000 without investigation or suspension. Some of the more important filings follow:

ILLINOIS BELL TELEPHONE COMPANY - High Frequency Portion of Loop (HFPL)/Line Sharing. On April 21, 2000, the company filed proposed tariffs to govern the implementation and offering of - High Frequency Portion of Loop (HFPL)/Line Sharing. Line Sharing allows both voice grade service and xDSL Services to be provided to a single end user over the same loop by utilizing different bandwidth frequencies within the loop. Staff was of the opinion that the matter needed further review and the matter was suspended and set for hearings in Docket 00-0393.

GTE NORTH INCORPORATED - Collocation Services. On June 21, 2000, the company established tariffs for the provision of collocation services in order to comply with the FCC's directives contained in its order in CC Docket No. 98-147. Inasmuch as Ameritech's tariffs filed to comply with this FCC directive are under suspension in Docket 99-0615, staff recommended this filing be suspended. The matter was set for hearings in Docket 00-0511.

ILLINOIS BELL TELEPHONE COMPANY - Unbundled Local Switching with Shared Transport (ULS-ST). On August 24, 2000, the company established tariffs for the provision of Unbundled Local Switching with Shared Transport (ULS-ST). This filing establishes rates, terms and conditions for a "permanent" shared transport offering to replace the interim shared transport offering currently available to requesting telecommunications carriers.

ILLINOIS BELL TELEPHONE COMPANY - Ameritech Base Rate and Ameritech DS1 Services. On July 3, 2000, the company filed to revise certain rates for Ameritech Base Rate and Ameritech DS1 Services for both retail and wholesale customers resulting in an increase in annual revenues of approximately \$8 million.

ILLINOIS BELL TELEPHONE COMPANY - Introduction of Ameritech OC-192 Dedicated SONET Ring Service. On October 19, 2000, Ameritech introduced Ameritech OC-192 Dedicated SONET Ring Service for both retail and wholesale customers. This data transmission service operates at a speed of 9.953 Gbps.

For complete documentation on the above docketed cases and tariff filings or other 2000 Commission actions, please contact the Chief Clerk's Office in either of the Commission's Springfield or Chicago locations. A description of pending telecommunications cases is provided in Section IV.A of this report.

II. Section 13-801(b)--Description of the Telecommunications Industry in Illinois

- (b) Description of the telecommunications industry in Illinois and changes or trends therein, including the number, type and size of firms offering telecommunications services, whether or not such firms are subject to State regulation, telecommunication technologies in place and under development, variations in the geographic availability of services and in prices for services, and penetration levels of subscriber access to local exchange service in each exchange and trends related thereto.

This section addresses three main areas of the telecommunications industry: the local exchange market, the interexchange market, and alternative carriers.

A. *Local Exchange Market*

1. Number, Size, and Location of Carriers

The local exchange market is served by local exchange carriers (LECs). To differentiate between the LECs, the term "incumbent LEC" will be used to identify LECs providing switched local service prior to December 31, 1993, and the term "Competitive Local Exchange Carrier" will identify those that received their switched authority after that date. Currently, 52 incumbent LECs provide local exchange service in Illinois. By the end of 2000, 45 Competitive Local Exchange Carriers (CLECs) had received Certificates of Exchange Service Authority to offer switched local exchange services, however, many will initially resell local service. Of those companies that received Certificates of Local Exchange Service Authority, 43 plan to provide resold local exchange services.

The CLECs include companies such as CoreComm Illinois, Inc., Z-Tel Communications, Inc., AT&T Communications of Illinois, Inc., Excel Telecommunications, Inc., and Ovation Communications of Illinois, Inc. In Illinois, the ILECs continue to serve the service territories that they were given prior to 1993, and most of the CLECs provide services in the Chicago area. Thirteen small telecommunications companies that are mutual or cooperative companies are not subject to regulation by the Commission. A list of Local Exchange Carriers located in Illinois, and that have filed tariffs (a prerequisite to providing service) with the Illinois Commerce Commission can be found in Appendix E.

Five LECs -- Ameritech Illinois, Verizon North, Gallatin River, Verizon South, and McLeodUSA --are designated as large LECs. The largest Illinois LEC is Ameritech Illinois, which serves most of the larger urban population centers in Illinois. Ameritech Illinois provides about 5.8 million

access lines, approximately 80.3 percent of all access lines in Illinois.¹ Included in this figure are approximately 4.2 million residential service lines and 1.5 million business service lines. Verizon North is the next largest company and provides about 0.8 million access lines, approximately 11.1 percent of the access lines in Illinois. Included in this figure are approximately 0.7 million residential service lines and 0.1 million business service lines.

The concentration of access lines directly corresponds to population density. The densest concentration of access lines falls within Ameritech Illinois' service territory. This explains why Ameritech Illinois, although its geographic service territory is smaller, serves more than seven times as many access lines as Verizon North, the largest Illinois telephone company in terms of geographic area and number of exchanges.

LECs that provide fewer than 35,000 subscriber access lines are subject to reduced regulatory oversight, as provided by Section 13-504 of the Public Utilities Act as amended in 1995. These small LECs are permitted to implement rate changes, change competitive classifications of services, and establish new services and rates therefor upon 30 days notice to the Commission and all potentially affected customers. Such rate changes are not subject to investigation by the Commission unless a complaint is received from a telecommunications carrier that is a customer of the LEC, or 10% of the LEC's potentially affected subscribers. If, after notice and hearing, the Commission finds that a rate change is unjust or unreasonable, in whole or in part, the Commission has the power and duty to establish rates, charges, classifications, or tariffs it finds to be just and reasonable. This provision relating to small local exchange carriers assumes informal community pressure will prevent unnecessary rate increases. This provision also reduces the regulatory costs that are incurred by the company--which can be passed on to the ratepayers--and the Commission in traditional rate cases.

2. LEC Services

LECs offer dozens of services ranging from "plain old telephone service" to custom calling and high speed data transmission. There is, however, a general disparity between the offerings of the Illinois LECs. The five large companies that serve the more concentrated markets tend to offer a greater range of services than do the 47 smaller incumbent companies that serve the more rural markets.

The range of local exchange services compiled for this annual report includes basic service, touch-tone service, custom calling services, advanced custom calling services, extended area service, and intraMSA toll. The section below briefly describes each service. A Commission survey detailing the current rates for basic and custom calling services is included as Appendix A. These rates are as of October 1, 2000, as reported by the companies.

¹Numbers reported are totals of all Illinois revenue-producing access lines, excluding PBX trunks, centrex lines and other access lines.

a. Basic Service

Local voice communications or "basic telephone service" is the most essential telecommunications service. In general, all other telecommunications services depend on the provision of basic service. Basic service or "plain old telephone service" is composed of two major components: access and usage.

Basic Service--Access: Basic access, which is indicated by a dial tone, is the subscriber's connection to the public telecommunications network. LECs provide access via access lines or what are sometimes known as local loops, that run from the subscriber's premises to the LEC's central office switch in each exchange.

Basic access service is offered in two service classifications: business and residential. Historically, business subscribers have been charged a higher rate for access, because it was perceived that businesses derived greater value from access due to their greater reliance on telephone service when compared with residential subscribers. However, the facilities and underlying costs of providing network access to business and residential subscribers are not appreciably different.

Basic Service--Usage: "Usage" is the initiation of communications by a subscriber via the network. The number of calls completed by a subscriber, the duration of those calls, the distances the calls are transmitted, and the time and day the calls take place are all aspects of a subscriber's basic service usage.

In Illinois, two rate structures are currently employed by incumbent LECs for determining charges for basic service. Under the flat rate service structure, a class of customers (residential or business) is charged a single flat fee for both access and local usage each month. Under this format, a subscriber will be charged the same amount each month, regardless of the subscriber's actual telephone usage. Each of the 47 small incumbent telephone companies, Verizon South, and McLeodUSA offer flat rate service in all of their exchanges. Ameritech Illinois and Verizon North offer flat rate service in some of their exchanges. Currently, about 0.4 million access lines, approximately 6.0 percent of all Illinois access lines, are billed under a flat rate.

Local measured service (LMS), also referred to as Usage Sensitive Service, is the most common rate structure employed in Illinois. In an LMS rate structure, the access and usage components of basic service are separated. LMS subscriber bills contain at least two billing components: (1) a flat access fee, and (2) a usage charge individually computed for each subscriber according to that subscriber's local usage during the billing period. LECs measure and charge for usage based on the number, duration, and distance of calls and on the time of day and day of the week the calls are placed.

Ameritech Illinois provides mandatory LMS in all exchanges other than nonconforming offices. About 5.7 million access lines, approximately 99.0 percent of all Ameritech Illinois business and residential access lines, are billed under an LMS rate. Verizon North provides mandatory LMS to about 0.8 million access lines, approximately 99.8 percent of all Verizon North access lines. Gallatin River Communications provides LMS to about 0.1 million access lines, 100.0 percent of

its access lines. Statewide, approximately 6.8 million access lines, or about 94.0 percent of all Illinois business and residential access lines, receive service under an LMS rate.

b. Touch-tone Dialing

Touch-tone calling service, for many years considered an enhanced service, has essentially become a basic service today. Touch-tone provides for the origination of telephone calls through the use of telephones equipped with pushbuttons that, when pushed, generate distinctive tones. Touch-tone service is quickly becoming a necessary function since it is sometimes the only method of accessing interactive services such as home banking and voice mail.

Except for certain smaller LECs that offer touch-tone as part of basic service, and Ameritech Illinois which eliminated touch-tone charges as part of their rate restructuring plans, the incumbent LECs apply an additional charge for the service. As with basic service rates, touch-tone rates are sometimes differentiated between residential and business customer classifications, with rates being higher for businesses. Like basic service, the technology and underlying costs of providing touch-tone to residential and business customers are identical; the rate differential is based entirely on historical perceptions of value.

c. Custom Calling Services

Subscribers' basic service calling abilities can be expanded through the use of custom calling services. Services referred to as custom calling services include call waiting, call forwarding, three-way calling, and speed calling. The largest LECs offer these services in most of their exchanges. A few of the small LECs are unable to offer custom calling services in their exchanges due to technological limitations.

In exchanges where LECs offer custom calling services, such services are priced individually or grouped together in packages at rates *additional* to the basic service rates. Depending on the area and LEC in question, custom calling service rates can differ between residential and business customer classes, but generally they are priced the same for all users. As with basic service and touch-tone service, such rate disparities are based on historical perceptions of value and not actual cost differences associated with provision of the service. The underlying facilities and costs of providing custom calling services to residential and single-line business customers in the same exchange are identical.

Comparative rates for custom calling services appear in Appendix A. Descriptions of the individual services are provided below.

Call Waiting: Call waiting allows a subscriber to accept calls while engaged in a telephone conversation. When using the telephone, a subscriber with call waiting will hear a tone signal indicating that another call has been dialed to the subscriber's number. By pressing the telephone cradle hook once, the subscriber can place the first call on "hold" and receive the second call. Upon finishing with the second call, the subscriber

may resume the first call by pressing down the cradle hook a second time.

Call Forwarding: With call forwarding, telephone calls dialed to a subscriber's assigned telephone number can be automatically transferred to any other telephone number capable of receiving telephone calls.

Three-Way Calling: Three-way calling allows a subscriber to dial two phone numbers and conduct a conference call with the other two individuals.

Speed Dialing: Speed dialing allows a subscriber to access specified telephone numbers by dialing abbreviated codes of one, two, or three digits. Speed dialing services vary in the number of telephone numbers subscribers may program. Many LECs offer more than one speed dialing package, with varying storage capacities. Because of the wide range of speed dialing program capacities, comparisons between rates could be misleading.

d. Advanced Custom Calling Services

Advanced custom calling services are those services that are made possible through a technology called Signaling System Seven (SS7). SS7 was initially developed to improve the efficiency of the public switched network through the installation of a separate data network superimposed upon the existing network. The purpose of this data network is to process call setup information such as a called party's phone number. This data network allows carriers to "look ahead" of a call to determine if the call can be completed, e.g., if the called party's number is not busy. Unless the data network determines the call can be successfully processed, network facilities are not allocated for that call, thus freeing those facilities up for other calling.

A brief description of some of the advanced custom calling services is provided below. Tariffed rates for these services, where offered, are listed in Appendix A.

Automatic Call-Back: This service allows a customer to return the last incoming call. If the number of the returned call is busy, a queuing process begins where the idle/busy status of the line is continually tested. When the line of the called number becomes idle, the customer will be notified by a distinctive ring.

Repeat Dialing: This service allows a customer to automatically redial the number associated with the last outgoing call placed by the customer. If the redialed number is busy, a queuing process begins where the idle/busy status of the line is continually tested. When the line of the redialed number becomes idle, the customer will be notified by a distinctive ring.

Distinctive Ringing: This service allows a customer to specifically designate several telephone numbers for distinctive ringing. When the customer receives a call from the line associated with one of the designated numbers, the customer's phone will ring distinctively--notifying the customer that they are receiving a call from a line associated

with one of the specifically designated numbers.

Call Screening: This service allows a customer to block calls from several telephone numbers. Blocked calls are forwarded to a recorded announcement that will indicate that calls are not being taken at this time.

Call Trace: This service will allow a customer to automatically trace an incoming telephone call. The customer will not be able to identify the calling number; rather, the calling number will be obtained by the telephone company. The number may then be provided to law enforcement agencies.

Caller Identification: This service delivers the calling party's phone number and, possibly, the billing name, to a display device on, or attached to, the phone of the called party. The Commission, in its Order in Dockets 90-0465 and 90-0466 (consolidated) which approved the implementation of Caller ID services, also ordered that free per-call blocking be provided. Individuals who do not want their calling number to appear on the display device of a Caller ID subscriber can dial *67 (touch-tone phone) or 1167 (rotary dial phone) and prevent the delivery of their calling number.

e. Extended Area Service

Extended area service (EAS) is the offering of flat-rate or reduced rate usage sensitive service between nearby exchanges. Usually, these exchanges are separate communities. Under flat rate EAS, all subscribers in a given community pay for the ability to call the nearby community under a flat rate. Note that this charge applies whether or not the service is actually used by a subscriber. The subscriber who uses the service heavily (i.e., makes many calls to the neighboring exchange) is charged the same amount as the subscriber who does not use the service at all. EAS routes can be either one way or two way (one way EAS permits one community to call the other for a flat fee, but not vice versa; two way EAS permits both communities to call each other with an additional flat rate charge on both communities' phone bills). This service is declining in Illinois; the Commission last approved an EAS route approximately 20 years ago, and, over the past several years, has been attempting to phase out EAS. In many areas EAS has been replaced by "pick-a-point" or LMS offerings.

Pick-a-point is an optional calling service for residential subscribers. Essentially, pick-a-point allows a subscriber to make volume purchases of intraMSA, interexchange service to a point, or points, specified in the pick-a-point plan. A residential subscriber choosing pick-a-point for intraMSA long distance calls between his or her home and the county seat, for instance, would be able to place a specified amount of calling to that point for a specified flat fee, which is in addition to the local service rate. The subscriber pays only if he or she has ordered pick-a-point. The Commission has not ordered carriers to offer pick-a-point; rather, it is up to the local carrier to offer the service, and it is not available from all carriers or between all points.

f. IntraMSA Interexchange Service

In addition to local exchange services, LECs also provide the bulk of intraMSA, interexchange

telephone service. This service was previously provided through the Primary Toll Carrier (PTC) for the MSA. This concept was ordered by the Commission in 1986. The LEC with the most significant toll presence in each MSA was designated the PTC for that MSA. Each PTC developed and filed toll rates, coordinated the toll networks, and acted as the carrier of last resort in the MSAs for which it is responsible. As ordered by the Commission in Docket 94-0096, staff filed a report with the Commission on October 4, 1995, outlining Staff's opinion on the elimination of Primary Toll Carrier arrangements. On December 20, 1995, the Commission approved in Docket 95-0503 a stipulation that replaced primary toll carrier arrangements with customer chosen toll carriers.

3. LEC Trends and Changes in Market Structure

Having reviewed the number, size, and geographic territories of the LECs, and having compared the various rates and the geographic availability of the most frequently used LEC services, this report will now discuss general conditions affecting the supply and pricing of telecommunications local exchange services in Illinois.

a. Local Exchange Competition

Several actions taken by the Commission in 2000 were designed to facilitate and encourage competition in telecommunications markets. This section discusses major past, present, and future Commission actions that address competitive issues.

On September 22, 1989, the Commission granted the first certificate of exchange service authority to a non-monopoly carrier. Teleport Communications Group, a competitive access provider (CAP), was granted the authority to provide direct, nonswitched private line services and resold nonswitched exchange services in the Chicago local exchange service area served by Illinois Bell (now Ameritech Illinois). In 1991, other CAPs, including Diginet and MFS, were granted similar certification which included authority to offer those services in twelve additional exchanges besides the Chicago exchange. On April 29, 1992, the Commission granted Teleport the authority to extend its geographic service area to include thirty exchanges within the Illinois Bell and Centel service areas with the additional authority to resell all local exchange services and to provide nonswitched and resold interexchange services.

In 1994, the Commission broadened the authority of the CAPs further by giving MFS and Teleport's affiliate, TC Systems, the authority to provide facilities-based local exchange switched services--along with the services that they were previously certified to provide--in those portions of MSA-1 served by Ameritech Illinois and Centel.

These carriers are considered "Competitive Local Exchange Carriers," a term that differentiates them from the incumbent LECs, but makes no implication about any service or quality differences. MCI Communications was given service authority similar to TC Systems' and MFS's in 1994, but was unique in that it offered its services to residential customers over Jones Lightwave Ltd.'s cable television network in a trial limited to 2 years and 1000 customers in

Wheaton, Illinois. Thirty-four certificates of exchange service authority were granted during 1997.

After receiving its first Certificate, Teleport filed a complaint with the Commission against Illinois Bell in Docket 90-0444 alleging Illinois Bell's failure to provide interconnection to Teleport on the same terms and conditions that Illinois Bell provides for its own operations. This matter was resolved when Illinois Bell filed its Optical Interconnection Service tariff for high-speed, digital, non-switched, private line and special access service for three central offices in downtown Chicago. Thereafter, Teleport filed a request in Docket 90-0425 for an Order making the tariff effective for all exchanges for which it had authority. This matter was eventually resolved by a stipulated agreement which provided interconnection of private line and special access facilities in the requested exchanges in a manner that is technically, economically and administratively equivalent to the service which Illinois Bell provides to its own private line and special access services. This stipulated agreement was approved in the Third Interim Order in Docket 90-0425 which also directed Commission Staff to conduct workshops to investigate the issues surrounding local competition and interconnection. The Commission Staff's report was presented to the Commission on July 1, 1992. The Commission on October 25, 1992, in the Sixth Interim Order in Docket 90-0425 initiated Docket 92-0398, a rulemaking proceeding to address interconnection standards in Illinois.

On April 6, 1994, the Commission adopted interconnection rules that provided in part for physical collocation in the absence of an agreement between the LEC and the interconnecting carrier. In June of 1994, the U.S. Court of Appeals for the District of Columbia Circuit in Bell Atlantic Telephone Cos. v. FCC, Appeal No. 92-1619, etc. (consolidated) set aside the FCC's rules providing for physical collocation as the preferred method of interconnection. Following the ruling, in August of 1994, the FCC published new rules adopting virtual collocation as the preferred method for interconnection. This set up an inconsistency between FCC rules and the Commission's rules for interconnection. On November 2, 1994, the Commission opened Docket 94-0480 to correct the apparent inconsistencies in switched and special access interconnection rules between the interstate and intrastate jurisdictions resulting from Bell Atlantic Telephone Cos. v. FCC and the FCC's subsequent rule changes.

Shortly after MFS received its switched exchange authority, it filed a complaint against Ameritech Illinois for refusing to provide certain inter-carrier arrangements that MFS said Ameritech Illinois has made available to other previously authorized independent local exchange carriers, i.e., adjacent incumbent LECs. MFS's complaint was quickly followed by similar complaints filed by TC Systems and MCI Communications.

While the CLECs demanded that the Commission require Ameritech Illinois to make the arrangements necessary for them to exercise their exchange authority, Ameritech Illinois maintained that these arrangements should be resolved in its Customers First docket. This docket, which was consolidated with an AT&T petition regarding local exchange competition, addressed unbundling of the local loop, end office integration, inter-company compensation, intraMSA presubscription, and other issues related to local competition.

In 1994, the Commission adopted rules to implement Section 13-505.1 of the Public Utilities Act requiring imputation tests for switched interexchange services and for local competitive services.

These rules were adopted to protect competitors by attempting to insure that the companies providing noncompetitive inputs to competitors charge them the same rates that those companies explicitly or implicitly charge themselves.

On April 7, 1995, the Commission established a policy framework and policies in order to address the emergence and development of local exchange competition with the adoption of Ameritech's Customers First Plan in Illinois. The Commission required Ameritech to interconnect with competing local service providers, unbundle its local exchange facilities, allow other carriers to resell its residential services and allow customers to pre-subscribe to the carrier of their choice for short-haul toll services.

The federal Telecommunications Act of 1996 (TA96) set up a framework for the opening of local telephone markets around the country. An interesting fact is that TA96 drew heavily from the policies and practices of the Illinois Commerce Commission, which at the time had already undertaken many steps through the regulatory process to deregulate and develop competition in the Illinois local phone market. In response to TA96, Senate Bill 700 (P.A. 90-185, effective July 23, 1997) was enacted to accelerate the development of competition in Illinois in many ways. SB 700 set up certain accelerated processes by which competitors could gain access to the incumbent local phone companies' network and set up a mechanism for handling complaints between incumbents and competitors.

The Commission has previously filed numerous comments in FCC dockets and urges the FCC to continue to facilitate the development of competition in telecommunications, when in the public interest, as a means of increasing service options for consumers at a reasonable price. The FCC has issued orders in several dockets that will increase competition at the interstate level and have ramifications at the intrastate level. The FCC's actions in number portability and number administration, in expanding interconnection through virtual collocation, and establishing rules to govern the newly emerging personal communications services (PCS) market will all work toward making telecommunications services a more competitive and, thus, more price efficient market.

In future comments on FCC proceedings, this Commission will continue to recommend the encouragement of competition in the provision of telecommunication services when in the public interest. The Commission's experience with the telecommunications industry in Illinois has led to the conclusion that the long distance industry is increasingly competitive and the FCC should continue to make every effort not only to maintain that competition, but to continue to encourage it in the local exchange market as well.

b. Alternative Regulation in Illinois

On November 9, 1989, the Commission approved an Illinois Bell statewide rate restructuring plan. That initial proposal contained a mechanism for earnings sharing between the company and ratepayers that departed from traditional rate-of-return regulation. This alternative regulatory plan was reversed by the Illinois Second District Appellate Court on October 3, 1990, which stated that the Commission did not have the authority to adopt the alternative regulatory plan. In

addition, the Court concluded that an explicit allocation of common expenses, which had not been made, was required under Section 13-507. The Court remanded the latter issue to the Commission and the Commission issued its Order on Remand on November 4, 1991. The Second District Court of Appeals affirmed the Commission's Order on Remand on January 6, 1993, including the Commission's approval of cost of service studies and a method for allocating common expenses.

In 1992, the Public Utilities Act was modified to include a clear requirement in Section 13-507 for an allocation of common expenses and a new Section 13-506.1 which permits the Commission to approve an alternative regulatory plan with a number of requisite findings. The new Section 13-506.1 requires the Commission to consider, when evaluating an alternative plan, whether it will: (1) reduce regulatory delay and costs; (2) encourage innovation in services; (3) promote efficiency; (4) facilitate the broad dissemination of technical improvements to all classes of ratepayers; (5) enhance economic development of the State; and (6) provide for fair, just, and reasonable rates. In addition, seven findings are required: the plan must (1) be in the public interest; (2) produce fair, just, and reasonable rates for telecommunications services; (3) respond to changes in technology and the structure of the telecommunications industry that are, in fact, occurring; (4) constitute a more appropriate form of regulation based on the Commission's policy goals in Section 13-103 and this section; (5) specifically identify how ratepayers will benefit from efficiency gains, cost savings, and productivity improvements; (6) maintain the quality and availability of telecommunications services; and (7) not unduly or unreasonably prejudice or disadvantage any particular customer class, including other carriers.

On December 1, 1992, Illinois Bell filed a petition to regulate rates and charges of its noncompetitive services under an alternative form of regulation (Docket 92-0448), which was subsequently consolidated with Docket 93-0239. Docket 93-0239 was a complaint filed by CUB for an investigation and reduction of Illinois Bell's rates under Article IX of the Public Utilities Act. Docket 92-0448 was decided by the Commission on October 11, 1994, resulting in Ameritech Illinois' noncompetitive services being regulated under an indexed price cap regime with no earnings sharing and an initial reduction in rates. Annual updates to the price caps and their results are shown below.

| <i>Annual Update</i> | <i>Result</i> | <i>Date</i> |
|-----------------------------|-----------------------------|--------------------|
| 1 st | \$39 million rate reduction | July 1995 |
| 2 nd | \$31 million rate reduction | June 1996 |
| 3 rd | \$54 million rate reduction | June 1997 |
| 4 th | \$19 million rate reduction | June 1998 |
| 5 th | \$34 million rate reduction | June 1999 |
| 6 th | \$30 million rate reduction | June 2000 |

c. Subsidy Reduction in Telecommunications Services

Historically, the nationwide telephone network developed a financial structure containing significant subsidy flows between different services. As an example, long distance rates subsidized local rates. With telecommunications services becoming more competitive, it is more difficult for "monopoly" revenues to fund these subsidies, thereby creating pressures to either phase out the subsidies or fund them from a different source. The Commission has been active in addressing these problems.

(1) Cost of Service Requirements

In 1994, the Commission implemented the new requirements in the Public Utilities Act regarding imputation tests for competitive services and switched interexchange services (Docket 92-0210). In 1995, it also finalized rules implementing a long run service incremental cost standard, and an explicit allocation of common expenses between competitive and noncompetitive services (Docket 92-0211). The intent of these rules is to provide standards for determining whether certain services are anti-competitively priced and whether competitive services are receiving subsidies from noncompetitive services. As a result of these rules, the Commission determined that Ameritech Illinois' payphone services were being subsidized and required other rates to be reduced by \$16.5 million.

(2) Link Up and Lifeline Assistance

For information about the Link Up and Lifeline Programs, please refer to Chapter III, Section A, Universal Services.

d. Technological Trends

Installation of digital and analog electronic switching systems (ESS) requires large initial capital expenditures. These expenditures have been justified by reduced labor and maintenance costs over the life of the equipment. Furthermore, ESS switches allow provision of higher quality basic service and the offering of custom calling services. (Custom calling services cannot be offered from non-electronic central offices.) The conversion to digital switching also allows LECs to implement LMS. Additionally, electronic switching systems allow for the provision of equal access arrangements providing consumers a wide range of IXC alternatives. Finally, expanded use of digital central offices and the use of software such as the Advanced Intelligent Network (AIN) releases will enable LECs to develop and offer services that may be currently unimagined.

New services are being made available through the continued implementation of SS7 technology throughout the national public switched network. Originally developed as a means to improve network efficiency and decrease call set-up time, it was soon discovered there were many customer applications made possible by SS7 such as Caller Identification, Call Trace, Automatic

Call-back, Distinctive Ringing, and Call Screening.

Switch Technology. In response to a Commission survey regarding current and planned deployment of switch technology, the following information was provided. The following table describes the status of switching technology for the largest Illinois LECs and for all Illinois LECs in aggregate.

| COMPANY | DIGITAL OFFICES | ANALOG OFFICES | PERCENT CURRENTLY DIGITAL | ANALOG TO DIGITAL BY 2001 | PERCENT DIGITAL BY 2001 |
|---------------------|-----------------|----------------|---------------------------|---------------------------|-------------------------|
| GALLATIN RIVER | 24 | 0 | 100% | 0 | 100% |
| Verizon NORTH | 478 | 0 | 100% | 0 | 100% |
| Verizon SOUTH | 46 | 0 | 100% | 0 | 100% |
| AMERITECH IL | 347 | 13 | 96% | 2 | 96.9% |
| ICTC | 37 | 0 | 100% | 0 | 100% |
| REMAINING COMPANIES | 281 | 0 | 100% | 0 | 100 % |
| STATEWIDE | 1,213 | 13 | 98.9% | 2 | 99.1% |

The small LECs are 100 percent digital. All of the large LECs that still had non-digital switches in 2000 increased the number of deployed digital switches in the past year. In addition, companies have identified additional switches to be converted from analog to digital technology. This trend is seen in the planned conversion figures, which indicate that two additional switches are to be converted by 2001. The information provided to the Commission suggests that 99 percent of the LEC switches in the state will be digital by 2001.

Number Portability. An important new network capability that is technically possible due to digital switching systems is number portability, although significant development work must be done. Full number portability would allow any subscriber to change his/her service location, provider, or premises and retain the existing telephone number. Number portability will be a significant transfer of control over the telephone number from the phone company to the individual customer. The telecommunications industry currently utilizes number portability with 800 services. An 800 service database is used whenever a customer dials an 800 number, to determine which carrier the call should be routed to for completion. Similar methods are being developed to allow number portability for other numbers, with the most immediate application being service provider portability, which would allow customers to take their existing number with them if they switch local service providers.

The Commission determined in the "Customers First" Order that local number portability should be implemented in Illinois and directed that an Industry Working Group develop solutions for Illinois. The Industry Working Group met regularly to guide the development of number portability. The number portability solution being developed would be expandable to other types of number portability and would allow expansion to wireless carriers when feasible for their networks. The Commission approved the basic technological approach in March 1996.

Personal Communications Services (PCS). The FCC auctioned Personal Communications Services (PCS) licenses during 1995, as discussed in Section II.C. This new wireless technology became available to customers in 1996. PCS may compete for local exchange customers along with the growing number of wireline competitors. Hybrid wireless/wireline applications are being developed, e.g., a handset that acts as a landline cordless phone when near its base attached to the wireline network, but which functions as a cellular phone when away from the base.

Area Codes. The Illinois Commerce Commission received petitions for approval of area code relief plans for the 815 Area Code and the 618 Area Code. These petitions were filed by NeuStar, on behalf of the Illinois telecommunications industry. They seek approval of an all services overlay for the 815 Area Code and for the 618 Area Code. The petitions have been docketed and the Commission is currently investigating the need for area code relief.

Number conservation measures, such as number pooling, are currently in use in the Chicago metropolitan area. The following area codes serve the Chicago area: 312, 773, 708, 847 and 630 Area Codes. The conservation measures have been successful in extending the forecasted exhaust dates for the area codes. As an example, in 1998 the 312 Area Code was forecasted to exhaust in the fourth quarter of 1999. Based on forecast data contained in the October 2000 Chicago Area Code Forecast Report, the 312 Area Code is projected to exhaust in the fourth quarter of 2001.

In 1999, the Illinois Commerce Commission filed a petition with the Federal Communications Commission for a waiver of the ten-digit dialing requirement of its rules governing area code relief. The petition sought a delay in implementing ten-digit dialing until the last area code overlay is adopted in the Chicago metropolitan area. The Federal Communications Commission, on March 1, 2000 granted the Illinois Commerce Commission a temporary delay in implementing ten-digit dialing until the last overlay area code is activated. The waiver is for an eighteen month period ending on April 1, 2001. As the 847 area code was never exhausted, the waiver was not triggered and the ICC expects to request an extension in order to fully review all possible options.

Broadband. The past few years have seen quite a few advances in the Telecommunication industry. Continued deployment of high capacity fiber optics in both local and long distance networks facilitates the increasing demand for broadband services which allow voice, data, and video communications to be merged onto one medium in a cost-effective manner. When fiber optic cable was deployed in the late 1970's early 1980's, all work performed with fiber cable was done in sterile like conditions and splicing the cable was labor intensive. The cable was expensive because (at the time) it had to be almost pure and the electronics or fiber terminals were expensive. Today the glass in the cable does not have to be as pure as originally thought

and fiber terminals have become more mature which has reduced the prices such that it is almost as inexpensive as a copper cable. Today fiber optic cable is so common place that some Cable Television and Telephone companies are trying to put fiber to the house. This advance in telecommunications transport technology has helped expand technologies like Frame Relay, Asynchronous Transfer Mode (ATM), and Digital Subscriber Line (DSL).

Frame Relay is a transport system that separates data into packets at one end and puts it back together at the other end allowing telecommunication carriers to efficiently utilize the public switch network to send and receive data. Asynchronous Transfer Mode (ATM) is also a transport system used to send and receive data which utilizes a different type of format that ships any data without costly protocol conversion. If one customer is using Frame Relay technology within their business unit, that Frame Relay data can be sent to their other business location over the ATM network as Frame Relay data. ATM has been defined as a communications protocol suite for the desktop, the local area network (LAN), the campus backbone network, and the Wide Area Network (WAN).

As both residential and business customers started accessing data systems (like the Internet) the need for faster data transfer was needed. A product still being used today is ISDN (Integrated Services Digital Network). There are two versions of ISDN available, which are used in conjunction with a telephone and a data terminal (Personal Computer) with the biggest drawback being the cost to the telephone company and to the customer. The telephone company must install special line equipment in their central office and the customer must purchase special equipment at their premises. ISDN is used mainly to service businesses but whereas in past annual reports, the Commission has mentioned that highly sophisticated services such as ISDN are looming on the horizon, today this service can now be obtained by residential customers as well as business customers through Ameritech Illinois' ISDN tariffs. ISDN, which until recently was viewed as high tech but impractical for most users, is now recognized as a valuable tool for businesses as well as residential users who wish to work from home or "telecommute."

One of the latest advances in the telecommunications field is the Digital Subscriber Line (DSL). DSL services give customers access to high speed data for far cheaper than ISDN. There are several versions of DSL services available to end users, the most widely used being ADSL or Asymmetric Digital Subscriber Line. ADSL gives the subscriber the ability to access the Internet over their existing copper wire facilities as well as talk on their phone at the same time. The download speed can reach up to 8 Mbps (8 Million bits of data per second).

Another DSL version is called Symmetric Digital Subscriber Line (SDSL). SDSL is packaged in various ranges of bandwidth configurations but does not support the use of voice and data on the same line like ADSL. The ISDN Digital Subscriber Line (ISDL) is a cousin of the dial-up ISDN except that its speed cannot be upgraded. HDSL and HDSL2 (also known as T-1) are High-bit-rate Digital Subscriber line versions of DSL that provide data service up to 1.54 Mbps. Very-high-bit-rate Digital Subscriber Line (VDSL) is the fastest version of DSL which is capable of supporting symmetric or asymmetric services but can only be used in close proximity to a central office. VDSL can provide asymmetric data and telephone service transmission on a single twisted pair (two wires) of copper wire.

e. Subscribership in Illinois

Section 13-301(b), enacted by the Universal Telephone Service Protection Law of 1992, requires that the Commission "establish a program to monitor the level of telecommunications subscriber connection within each exchange in Illinois, and report the results of such monitoring and any actions it has taken to maintain or recommends to be taken to maintain and increase such levels." For purposes of this report, "telecommunications penetration" is defined as the percentage of households that have telecommunications service available within the home. A high level of subscription is commonly referred to as "universal service."

Performance of a penetration study has inherent difficulties. Major difficulties in performing this study are the direct consequence of the requirement to perform the study on an exchange-specific basis. In Illinois, there are 972 local telephone exchanges served by 52 different incumbent companies. To comply with Section 13-301(b), it was necessary for the Commission to gather two types of information for each exchange. The first type of information, the number of residential telephone access lines in each exchange, was easily obtainable. The other information, the number of households in each exchange, was more difficult to obtain and had to be derived from census data, other population data, or estimates (for some companies the number of households was not supplied at all). In each case, the Commission has had to rely on the data provided by each local exchange company.

In performing the penetration study, the Commission attempted to address the above problems. Each of the LECs (including the CLECs) in Illinois was sent a four-item questionnaire and was instructed to tabulate all data as of October 1, 2000. A summary of the data responses is listed below for Ameritech Illinois and Verizon North. As indicated previously, these two companies serve in excess of 91.4 percent of customers in Illinois. The numbers shown are approximations.

| | Ameritech Illinois | Verizon North |
|---|--------------------|---------------|
| No. Residential Access Lines | 4,215,000 | 670,000 |
| No. of Residential Households | 3,678,000 | 682,000 |
| No. of Residential Households with at Least One Access Line | 3,547,000 | 623,000 |
| Estimated Market Penetration | 96.4% | 91.3% |

Despite the imprecision of the numbers provided by some companies, they are fairly reliable in their ability to indicate general trends. The responses show a range of penetration rates for individual companies from 64 percent to 100 percent. The most current FCC study of Illinois penetration (released December 2000) concluded that approximately 92.1 percent of all Illinois households have telephone service. The penetration rate for the entire U.S. is 94.4 percent according to FCC estimates.

f. LEC Entry into the InterMSA Market

The issue of LEC entry into interMSA toll began with an Ameritech Illinois petition before the FCC, its Customers First tariff filing before the Commission and a submittal to the U.S. Department of Justice. Ameritech proposed competition for local telephone service in return for a concurrent removal of the interMSA restriction in its Modification of Final Judgment (MFJ) Consent Decree.

Ameritech's submittal to the U.S. Department of Justice on December 7, 1993, requested that the Department of Justice support it in filing a motion for a temporary waiver from the MFJ's interMSA restriction so that it could implement a trial of interMSA traffic originating from Illinois and another state, later identified as Michigan.

In May of 1995, the Commission submitted comments to the U.S. District Court for the District of Columbia supporting the Department of Justice's Motion to grant Ameritech a waiver of the MFJ line of business restrictions which preclude Ameritech from providing interMSA telecommunications services. The Commission stated that a waiver of the MFJ restrictions for the purpose of a trial could lead to enhanced telecommunications choices for Illinois citizens in the Chicago LATA. The Commission also filed comments jointly with the Indiana Utility Regulatory Commission, the Michigan Public Service Commission, the Public Utilities Commission of Ohio, and the Public Service Commission of Wisconsin in support of the waiver.

The 1996 Act was enacted while the Department of Justice's Motion was still pending in the U.S. District Court. It replaced the MFJ restrictions with statutory requirements and procedures that Bell Operating Companies must follow in order to enter the interLATA market. It also removed the prior court restriction on Verizon interMSA operations. The Commission conducted a Notice of Inquiry (Docket 96NOI-1) and initiated an investigation (Docket 96-0404) into Illinois Bell Telephone Company's compliance with Section 271(c) of the 1996 Act. Work in Docket 96-0404 continued in 1998. A third proposed order was entered on December 15, 1998, that recommended dismissal of this proceeding. A final order dismissing this proceeding was entered on January 21, 1999.

B. Interexchange Market

As previously outlined, local exchange services are telecommunications services between points within a single exchange and are predominantly the domain of the local exchange carriers. In contrast, interexchange carriers provide service primarily between points in separate MSAs, i.e., interMSA interexchange service.² IntraMSA interexchange calls were previously routed to PTCs unless a customer dialed a five-digit 10XXX carrier access code to route the call to a specified IXC. Section II. A. describes how PTC arrangements were terminated in 1996, allowing increased intraMSA options. This section describes the existing carriers' interexchange

²The intraMSA interexchange market has been open to facilities-based IXC entry since January 1, 1987.

service offerings and rates as well as the trends that continue to shape the interexchange market in Illinois.

1. Number, Type, and Availability of Carriers

As of January 1, 2001, 628 IXC's were certified to provide long distance telecommunications services within Illinois. The level of entry into this market is substantial when compared to the 36 carriers reported in the Commission's "Annual Report on Telecommunications 1988."

A general distinction is made in Illinois between the provision of facilities-based interexchange service and the resale of interexchange services. Facilities-based IXC's own the long distance network facilities they use to provide interexchange services. Examples of such network facilities include switching systems, cables, satellites, fiber optics, and microwave radio transmission systems. While facilities-based carriers may also purchase or lease some of their transmission facilities from other carriers, they provide the majority of their services through their own network facilities.

Interexchange resellers, in contrast, do not own or operate their own long distance networks. Rather, resellers lease or purchase bulk volumes of transmission and/or switching capacity from facilities-based carriers and then resell interexchange service to individual customers. Because capacity unit costs incurred by resellers are below the unit price offered to smaller individual customers of the facilities-based carrier, the reseller is able to compete with the facilities-based carrier. The vast majority of the interexchange carriers initiating service in 1998 were resellers. A listing of facilities-based carriers and resellers can be found in Appendix B of this report.

AT&T Communications of Illinois, Inc. is the Illinois arm of AT&T that resulted from the 1984 divestiture of the AT&T Bell System.³ AT&T was the original provider of long distance service in the United States and was the sole provider of such service until MCI was certified to provide limited interstate service in the 1960s. All IXC's are required to obtain a Certificate of Service Authority and file intrastate tariffs with the Commission. As providers of competitive services, they are generally not subject to intensive rate regulation, but the Commission retains its general authority to handle complaints, investigate charges of unfair rates, and supervise company operations.

AT&T is the largest IXC currently providing interexchange telecommunications services. MCI and Sprint are the next largest IXC's providing service in Illinois. Like AT&T, these two companies are facilities-based providers of national and international telecommunications services.

AT&T, MCI, and Sprint are all capable of transmitting telephone calls to any point in the United States and to points in many foreign countries. Most of the smaller IXC's also provide long distance service capable of transmitting calls to all points in Illinois and the United States. Some small IXC's, however, provide only limited calling between specified points.

³Prior to divestiture, the AT&T long-distance subsidiary was known nationwide as "AT&T Long Lines."

2. Long Distance Service Rates

Since 1984, intrastate long distance rates in Illinois have dropped significantly. At this time, Illinois telephone subscribers enjoy intrastate long distance rates that are among the lowest in the United States. Detailed tariffed rates by the three major interexchange carriers in the state, AT&T, MCI, and Sprint, can be found in Appendix C of this report.

In addition to basic long distance services, IXC's offer several other interexchange services. Not surprisingly, AT&T provides the fullest range of services of any IXC. Other IXC's have steadily expanded their service offerings. At present, many offer operator services, and most provide WATS services. In addition, MCI and Sprint offer 800 services.

3. IXC Trends and Market Structure

In past years, the Commission has reported on continued efforts to eliminate the subsidization of local exchange services by long distance rates. These efforts have largely been achieved, and the Commission now is turning its attention to expanding competitive forces into other areas of the interexchange market. Specifically, the Commission's efforts have been concentrated in two areas: (1) intraMSA interexchange service and (2) participation in comments to the FCC regarding policy activities at that level.

The authority that the Commission has over interMSA interexchange service includes certification of facilities-based carriers and resellers for intrastate service and the requirement of all such service providers to file tariffs with the Commission for all intrastate services. Entry of Ameritech into the interMSA market is currently restricted by the 1996 Act and is discussed elsewhere in this report.

Since 1986, IXC resellers have been allowed to receive certifications to provide intraMSA interexchange services while facilities-based carriers have been granted entry since January 1, 1987. An important issue concerning the provision of intraMSA interexchange service is dialing arrangements. The Commission initiated a Notice of Inquiry (NOI) into this subject on November 24, 1987. On April 13, 1988, the Commission completed its NOI investigation by adopting a final report and created Docket 88-0091 in order to hold hearings. Based on the record in Docket 88-0091, the Commission submitted a final report to the General Assembly on October 1, 1990. In this report, the Commission had two recommendations for the General Assembly regarding the issue of intraMSA dialing arrangements:

1. Existing intraMSA dialing arrangement restrictions should be maintained for the time being; and
2. Section 13-402 of the Act should be amended in order to delegate to the Commission direct regulatory authority over dialing arrangements.

In the rewrite of the Public Utilities Act in 1992, the General Assembly removed the prior restrictions on intraMSA dialing arrangements. The new language of the Act states that "[t]he removal from this Section of the dialing restrictions by this amendatory Act of 1992 does not create any legislative presumption for or against intra-Market Service Area presubscription or changes in intra-Market Service Area dialing arrangements related to the implementation of presubscription, but simply vests jurisdiction in the Commission to consider after notice and hearing the issue of presubscription in accordance with the policy goals outlined in Section 13-103."

From this language change, it is clear that the General Assembly authorized the Commission to consider changing this arrangement if it is in the public interest. Workshops were held on this subject in Docket 90-0425 during 1993, and parties raised the issue in Docket 92-0448. The Commission initiated a rulemaking on intraMSA presubscription on February 7, 1994 (Docket 94-0048). Ameritech also proposed a particular method of intraMSA usage subscription as part of its Customers First tariff filing. The Commission issued orders during 1995, requiring intraMSA presubscription. As of April 7, 1996, Ameritech Illinois had to allow intraMSA presubscription. All other LECs had to allow intraMSA presubscription as of November 1, 1996, as discussed elsewhere in this report.

C. *Alternative Carriers*

Mobile telecommunications services are generally considered as complementary services that overlay those services provided by wireline local exchange and interexchange carriers. This section addresses mobile carriers as well as customer-owned pay telephone service providers, operator service providers, and new local exchange carriers.

1. Mobile Telecommunications Services

Public mobile services include cellular services, personal communications services (PCS), and other mobile services such as air-to-ground radio, offshore radio, and rural radio services. Private mobile services include services such as private dispatch systems. State entry or rate regulation of private mobile services was preempted by a 1982 amendment to the Federal Communications Act.

Title VI of the federal Budget Reconciliation Act of 1993 amended Section 332(c) of 47 U.S. Code and enacted substantial changes in the regulation of mobile services, including a preemption of State entry or rate regulation of commercial mobile radio services, effective August 10, 1994. States may continue to regulate other terms and conditions of commercial mobile services. State regulation of entry or rates can continue only if a State petitions for and receives a waiver from the FCC based upon a showing that either (1) market conditions fail to protect subscribers adequately from unjust and unreasonable rates or rates that are unjustly or unreasonably discriminatory, or (2) market conditions exist whereby the commercial mobile service is a replacement for land line telephone exchange service for a substantial portion of the telephone land line exchange service within the State.

a. Cellular Services

Cellular carriers are currently providing service in all regions of Illinois (see list in Appendix D). There are currently 55 certified cellular telephone carriers. (Note that some of these carriers, while certified separately, are owned by the same parent company.)

The FCC divided the United States into two different types of cellular market areas known as Metropolitan Statistical Areas for urban areas of the country and rural statistical areas for rural settings. Cellular providers divide each market area into a number of smaller geographic areas known as cells. Located within each cell is a transceiver (transmitter/receiver) that transmits calls to and from mobile telephones within its transmission range. The transceiver is connected to LEC facilities for completion of cellular calls originating from or terminating to non-cellular customers. The transceiver in each cell operates using a subset of the 330 channels in the 50 MHz range of the frequency spectrum that the FCC has designated for cellular telephone service. Transceivers in contiguous cells use different subsets of channels. As a mobile telephone user moves out of the range of one transceiver, a contiguous cell begins to provide service to that customer.

Upon the development of cellular service regulation, the FCC granted certificates to two facilities-based carriers to provide cellular telephone service in each region. In each market area, the two facilities-based carriers split the frequency range with each transmitting over 25 MHz. There was originally a distinction between the two carriers such that one was a wireline telephone company and the other a non-wireline company. Since their original assignment, cellular licenses have been sold among various consortia and the wireline/non-wireline distinction between the two carriers has been largely obliterated.

In addition to the certified facilities-based carriers, the FCC permits resale of cellular service. These companies are referred to as resellers. They purchase telephone numbers from the certified carriers, sell and install mobile telephone equipment and bill their customers for cellular service. Resellers do not require certification by the Commission, but facilities-based cellular providers are required to receive a Certificate of Service Authority and to file annual reports with the Commission. 83 Ill. Adm. Code Part 760 excludes facilities-based cellular providers from certain other statutory and regulatory requirements.

b. Personal Communications Services

PCS is a new generation of wireless-phone technology that introduces a range of features and services surpassing those available in analog- and digital-cellular phone systems. PCS provides the user with an all-in-one wireless phone, paging, messaging, and data service having a greatly improved battery-standby time. PCS dual-band phones operating at 800 MHz and 1900 MHz enable users to receive full PCS features and services for IS-136 systems wherever they roam. The dual-mode capability provides service continuity and interoperability between analog and

digital networks. As a result, a PCS phone can provide access to all outdoor wireless services, be used in a private in-building system, and serve as a flat-rate digital cordless phone at home.

Ameritech Mobile Services succeeded in winning one of six narrow-band licenses allocated for the Midwest with a \$9.5 million bid. At the end of 1994, Ameritech Mobile Services completed a PCS trial in the Chicago Loop, which tested three separate PCS technologies.

In March 1995, AT&T Wireless and PCS Primeco (now Primeco Personal Communications), a consortium between US West, Nynex, Airtouch, and Bell Atlantic, won the two broadband PCS licenses for the Chicago market with bids totaling more than 750 million dollars. The Commission granted Certificates of Service Authority to both companies in 1996.

Today, Primeco and Sprint continue to be the predominant providers of PCS mobile telecommunications services in Illinois.

c. Other Mobile Services

Various radiotelephone services are available in most metropolitan areas. Unlike cellular telephone service, which has transmission facilities that can provide service to large areas and to a large number of customers at one time, other mobile telephone services are limited by their transmission facilities to a service area of approximately 25 miles in circumference and to a limited number of radio channels. As a result, the number of customers that can be served at one time is very small. In light of these limitations, many mobile telephone customers are migrating to cellular telephone service.

Section 13-203(b) of the Public Utilities Act excludes paging services from the definition of "telecommunications services" and thus precludes Commission regulation. Providers of public mobile services, as defined in Section 13-214(a), must obtain a Certificate of Service Authority and file tariffs and annual reports with the Commission.

2. Customer Owned Pay Telephone Service

Docket 84-0442 addressed the provision of Customer Owned Pay Telephone Service (COPTS) in Illinois. A Commission Order entered on June 11, 1986, outlines the certification and regulatory procedures for COPTS providers in Illinois. The Public Utilities Act and Docket 84-0442 differentiate between providers of COPTS to non-public and public locations. Unlike providers in public locations, providers of COPTS in non-public locations require no certification from the Commission. The Order in Docket 84-0442 also requires that each individual or company providing one or more COPTS instruments in a public location shall be certified as a telecommunications carrier within the meaning of Section 13-202 of the Public Utilities Act. As certified telecommunications carriers, public COPTS providers must file annual reports and have tariffs on file with the Commission as required by the Public Utilities Act. Both non-public

and public COPTS providers are required to provide 9-1-1 service.

In response to concerns regarding unusually high rates for operator assisted services as well as inadequate services and customer information provided by COPTS and Operator Service Providers (OSPs), a rulemaking proceeding (Docket 92-0275) was initiated through a Commission resolution adopted on July 22, 1992. The purpose of this rulemaking was to establish procedures concerning the rates, terms, and conditions applicable to COPTS and OSPs to ensure better information and protection for customers.

3. Operator Service Providers

Almost since the entry of the first operator service providers into the telecommunications market, consumers, telecommunications carriers, and regulators in Illinois and other jurisdictions have been confronted with a series of challenges regarding the provision of operator services. Numerous complaints have been received in both federal and state jurisdictions concerning operator service companies that have charged excessive rates, failed to properly identify themselves to end users, failed to allow end users to access alternative carriers, and "splashed"⁴ end users' calls to locations other than points of origination.

Both state and federal jurisdictions have responded to the mounting OSP complaints. In the federal jurisdiction, the FCC in May of 1989 requested comments on RM-6767, Practices, Policies and Appropriate Regulatory Treatment of Alternative Operator Services. On December 21, 1990, the FCC issued a Further Notice of Proposed Rulemaking in CC Docket 90-313 in response to the Congressional passage and Presidential signing of the Operator Consumer Services Act of 1990. The Illinois Commission was an active participant in this proceeding citing the need for rules on OSPs. Among the requirements for OSPs and aggregators contained in the FCC's Report and Final Order issued April 15, 1991, are the following:

- ?? Verbal identification of OSP before any charges could be incurred.
?
- ?? Written identification of the presubscribed OSP must be on or near the
payphone or aggregator phone.
?
- ?? Disclosure upon request and at no charge, of the rates, collection
methods and complaint processes to customers.
?
- ?? Ensuring that customers do not pay more than the tariffed charges from

⁴"Splashing" may occur if an OSP intercepts an end user's call and transfers that call to another carrier. Unless the OSP transfers the call to the second carrier's point of presence in the city where the call originated, the end user is likely to be billed from the point at which the second carrier received the call. For instance, if an OSP located in Los Angeles intercepted a call originated in Chicago for termination in New York, and then transferred the call to a different carrier's point of presence in Los Angeles, the new carrier would bill the end user for a call from Los Angeles to New York, rather than for a call from Chicago to New York.

presubscribed OSPs and that access is provided to 800 and 950 numbers.

?

?? OSP must comply with various billing and operation rules such as no "splashing," and no billing of customers for unanswered calls.

?

?? Publication of OSP information, rates and alternative choices available to customers must be made reasonably available.

?

?? After April 1991, all equipment must be manufactured with the ability to provide 10XXX access to IXC's of the customer's choice.

?

?? Minimum standards for the handling of emergency calls.

?

?? Requirements for the public dissemination by OSPs of information about the operator services industry.

In a companion docket, CC Docket 91-35, the FCC determined that 10XXX access must be provided from all aggregator payphones and set a schedule for unblocking. The FCC also determined that compensation to payphone owners for interstate access code calls was appropriate. Given that the technology was not yet available to enable measurement of per-call compensation, the FCC found that per-phone compensation of \$6.00 each month, to be divided among the carriers, was appropriate.

The Commission initiated a rulemaking to implement P.A. 88-382, which was signed into law on August 20, 1993 (Docket 93-0335). This legislation expanded the authority of the Commission over the OSPs and the rates, terms, and conditions of their service. The changed Section 13-901 of the Public Utilities Act required the Commission to adopt rules to address, at a minimum, the following issues: (1) oral and written notification of the identify of the OSP and of availability of certain information; (2) restrictions on billing and charges; (3) restrictions on "call splashing" as defined in 47 C.F.R. Section 64.708; (4) access to other carriers via 800, 950 and 10XXX numbers; (5) appropriate routing of emergency calls; and (6) enforcement of rules by operator service tariffs and withholding payment of compensation for noncompliance. The legislation also directed the Commission to adopt rules that are compatible with corresponding FCC rules. On August 10, 1994, the Commission issued an Order in Docket 93-0335 that implemented intrastate rules for OSPs that are compatible with the FCC rules on interstate operator services that are listed above. The rule also sets limits on the rates that OSPs can charge for various services.

4. New Local Exchange Carriers

As indicated previously in this report, the Commission has seen increased activity in the area of local exchange competition. With the approval of interconnection tariffs filed by Ameritech Illinois and Sprint/Centel, the Commission has allowed competitive access providers to connect their facilities with these carriers' central offices and to provide alternatives to local exchange service to certain customers. In 1995, the Commission authorized seven LECs to provide switched,

facilities-based local exchange service in the Chicago area in competition with Ameritech Illinois and Sprint/Centel. Thirteen more companies were authorized in 1996 to provide switched, facilities-based local exchange service in specific areas throughout the state or on a statewide basis. An additional 42 were authorized in 1997, 54 in 1998, and 62 more were authorized in 1999. In 2000 45 companies were authorized to provide switched, facilities-based local exchange service.

The increased dependence upon telecommunications by banks, brokerage firms, and other large, geographically dispersed corporations has created the need for more high-speed networks and services. This fact coupled with service outages such as the Hinsdale fire and the AT&T outages in New York and San Francisco have increased the demand for alternatives and redundancy in local exchange service. The survivability of these new networks was demonstrated when the severing of a fiber optic ring in Chicago caused no more than a few milliseconds delay during which the data carried on the ring merely reversed direction.

The Commission has favored encouraging competition in the local exchange market. It has been a long-standing policy of this Commission to foster competition wherever it is in the public interest because effective competition is believed to be superior to regulation in its ability to set efficient prices, provide a greater array of services, and provide for improved service quality. The Commission will continue, as it has in the past, to encourage alternatives to local exchange carriers when it is in the public interest.

Other activities on both the state and federal level with regard to new local exchange carriers and CAPs can be found in Section I and Section II.A.3.a of this report.

III. Section 13-801(c)--Status of Compliance with the Public Utilities Act

- (c) Status of compliance by carriers and the Commission with the requirements of the Public Utilities Act.

Compliance with various Public Utilities Act requirements, including Sections 13-505.1, 13-507, and 13-901 is discussed elsewhere in this report. This section describes compliance with Sections 13-301, 13-407, 13-703, and 13-801.

A. Section 13-301--Universal Service

Section 13-301(a) requires that the Commission shall:

participate in all federal programs intended to preserve or extend universal telecommunications service, unless such programs would place cost burdens on Illinois customers in excess of the benefits that they would receive through participation.

In the past, the FCC operated two federal programs designed to preserve and extend universal telecommunications service to low income persons. They were the Subscriber Line Charge Waiver Program (SLCWP) and the Lifeline Connection Assistance Program. The SLCWP is a federal/state matching program, under which funds from the federal jurisdiction, up to the level of the federal subscriber line charge (currently, \$3.50), would be provided in an amount to be matched by funds from the State jurisdiction in order to reduce the monthly telephone bills of low-income subscribers. The SLCWP was in operation in Illinois from October 1990 through March 1991. The State matching funds were provided through a customer surcharge. In 1991, however, the Illinois General Assembly passed legislation that invalidated this funding method; the Commission repealed this program in March 1991.

The federal Lifeline Connection Assistance Program provided federal funds from the federal jurisdiction to offset the installation and connection fees charged to new subscribers who have been certified as low income. The federal program provided 50 percent of the installation charges up to a maximum of \$30.00 for each certified participant. The Lifeline Connection Assistance Program did not require the State jurisdiction to provide any matching funds. This program began in Illinois in August 1989, but was also repealed in March 1991.

On November 10, 1992, in Docket 91-0262, the Commission entered an order which reinstated the Lifeline Connection Assistance Program in Illinois effective March 1, 1993 and established the Universal Telephone Service Assistance Program (UTSAP). UTSAP was mandated by Section 13-301.1 of the Public Utilities Act effective September 26, 1991, and is funded by ratepayers' voluntary contributions.

The administrator of the UTSAP is the Universal Telephone Assistance Corporation (UTAC), a

not-for-profit corporation of which all Illinois LECs are members. The UTAC Board is required under 83 Ill. Adm. Code 757.200(b) to annually petition the Commission to determine the amount (based on the amount of voluntary contributions) of supplemental assistance, if any, the LECs shall provide to each qualified subscriber.

UTAC filed its first petition in Docket 93-0332. An Order was entered on November 23, 1993, which determined that a one-time waiver of up to \$6.00 would be provided in addition to the 50 percent waiver of the installation charge. UTAC filed its second petition in Docket 94-0178. The Order entered July 7, 1994, increased the supplemental assistance from \$6.00 to \$10.00. The Commission approved the continuation of the \$10.00 waiver on May 3, 1995, in Docket No. 95-0004; on February 7, 1996, in Docket No. 95-0546; on April 23, 1997, in Docket No. 96-0372; and on June 17, 1998, in Docket No. 97-0556.

On May 6, 1998, in Docket No. 97-0631, the Commission entered an order revising 83 Ill. Adm. Code 757, implementing the federally mandated Link Up and Lifeline Programs. Link Up assists qualified low-income consumers by paying 50 percent (up to \$30) of the cost of installing local service in their principal place of residence. Link Up recipients will also receive a one year deferred payment schedule (with no interest or carrying charge) for the remaining installation charges up to \$200. Security deposit requirements which may be allowed by law are not included in the deferred payment scheduled. Approximately \$334,400 (year end projection) will be paid out from the voluntary contributions to support the state's portion of telephone installation for eligible consumers.

Lifeline provides up to \$5.25 in assistance towards the monthly charge for local telephone service for qualified low-income consumers. A service deposit will not be required if the consumer voluntarily elects toll blocking while initiating Lifeline service. If toll blocking is unavailable, the carrier may charge a service deposit. Low-income individuals who qualify for both programs must be a recipient of one of the following programs: Medicaid, Food Stamps, Supplemental Security Income (SSI), Federal Public Housing Assistance, or Low-Income Home Energy Assistance Program (LIHEAP).

On July 1, 1998, in Docket No. 98-0503, UTAC petitioned the Commission to increase the supplemental assistance to the remaining 50 percent of the installation charge for customers of eligible telecommunications companies. Non-eligible telecommunications companies, who do not participate in the federally funded Link-Up program, would received a 50% reduction in the installation charge. The Commission entered this order on September 23, 1998, effective October 23, 1998. Funding for the supplemental assistance comes from the voluntary contributions from Illinois ratepayers. In 2000, contributions on average equaled approximately \$83,000 per month.

On December 15, 1998, in Docket No. 98-0884, UTAC petitioned the Commission for determination of the amount and form of supplemental monthly assistance. In addition to the \$5.25 currently received from the federal Lifeline program, UTAC has recommended monthly assistance in the amount of \$1.50. The federal Lifeline program will match by 50 percent any amount contributed by UTAC, resulting in qualified customers of eligible telecommunications companies receiving a total monthly assistance in the amount of \$7.50. Qualified customers of non-eligible telecommunications company would received monthly assistance in the amount of

\$1.50. Funding for the supplemental monthly assistance comes from the voluntary contributions from Illinois ratepayers. The Commission entered this order on April 21, 1999, effective October 21, 1999. Approximately \$1,015,768.90 (year end projection) will be paid out from the voluntary contributions to support the state's portion of the monthly telephone bill for eligible consumers in 2000.

The FCC promulgated an amendment to its Lifeline regulations, which increases federal Lifeline support for low-income consumers in the service areas of federal price cap LECs to offset an increase ordered by the FCC in the federal subscriber line charge of price cap LECs. The FCC's action raised the subscriber line charge from \$3.50 to \$4.35 for Ameritech, Verizon, and Citizens Communications, as well as for any competitive LECs that are eligible telecommunications carriers in the service areas of Ameritech, Verizon and Citizens Communications. For all other non-price cap LECs, the federal baseline Lifeline support remains at \$3.50.

On November 5, 1999, as a result of an FCC merger condition, Ameritech offered the Commission a stand-alone three-year lifeline plan, in addition to the existing lifeline plan. The eligibility criteria is the same as the current program. Brief highlights of Ameritech's optional plan includes: a monthly discount of \$10.20 per month, prohibits optional or vertical services, formalizes payment arrangements on past due local service bills, and automatically converts existing lifeline customers where the enhanced lifeline offers a larger discount and no worse terms and conditions. The Commission approved Ameritech's offering on October, 18, 2000 and Ameritech implemented the plan in December, 2000.

Finally, the industry and UTAC joined forces to hire a consultant to conduct focus groups and survey consumers about why they do not have telephone service and why they are not availing themselves to UTAC's programs. This study was just completed and the results have not been released.

B. Section 13-407--Entry/Exit Analysis

Section 13-407 states that:

The Commission shall monitor and analyze patterns of entry and exit, and applications for entry and exit, for each relevant market for telecommunications services and shall include its findings together with appropriate recommendations for legislative action in its annual report to the General Assembly.

Information concerning entry and exit of carriers in the various markets is reported in Section II of this report. During 2000, the number of local exchange carriers increased from 249 to 294; the number of interexchange carriers increased from 563 to 628; and 10 more COPTS providers were certified. The Commission has no recommendations at this time for legislative change concerning entry and exit.

C. Section 13-703--Telephone Services for Persons with a Disability

Section 13-703 (as amended) requires the Commission to:

- a) design and implement a program whereby the local exchange carriers provide a TTY (teletypewriter) to telephone subscribers who are certified as deaf, hard-of-hearing, or voice-disabled, or represent organizations serving the deaf, hard-of-hearing, or voice-disabled;
- b) design and implement a program whereby the local exchange carriers provide a telecommunications relay service, which is a communications link between those persons who use a TTY device and those persons who use a standard telephone;
- c) establish a surcharge for each subscriber line to offset the costs incurred by the local exchange carriers under this Section; and
- d) determine and specify the organizations representing the deaf, hard-of-hearing, and voice-disabled which shall receive a TTY pursuant to subsection (a).

Since the program's inception, 7,623 TTY's and 20 Telebrailles have been distributed. Among the recipients of these devices, 70 not-for-profit organizations have benefited from this program.

During 2000, the relay system handled on an average of 169,000 calls per month. On May 10, 2000, in Docket 00-0258, the Commission entered an order setting the subscriber line charge at \$.10 per month per line for all subscriber lines and 1.0 cents per Centrex-type line. This line charge supports the equipment distribution and Telecommunications Relay Service Programs.

ITAC received approval of its contract and proposal for Telecommunications Relay Service, in Docket Nos. 99-0442 and 99-0443 on January 4, 2000. Effective February 1, 2000, Illinois' relay service was converted from AT&T to Sprint. On July 21, 2000, the FCC adopted an Order mandating the implementation of 7-1-1 as the nationwide number for access to Telecommunications Relay Service, effective October 1, 2001. Commission Staff have conducted workshops with the industry and consumers to coordinate and facilitate the implementation of 7-1-1 in Illinois.

D. Section 13-801--Annual Report

Section 13-801 of the Telecommunications Act states that:

The Commission shall prepare and issue an annual report on the status of the telecommunications industry and Illinois regulation thereof on January 31 of each year beginning in 1986...

By this report and fourteen previous reports, the Commission fulfills the above requirement.

IV. Section 13-801(d)--Impact of Illinois Regulatory Policies

- (d) Effects, and likely effects of Illinois regulatory policies and practices, including those described in this Article, on telecommunications carriers, service and customers.

In this section, four areas of impact on Illinois telecommunications policies are discussed. These areas are: issues pending in current dockets; competitive service provision by LECs; increased number of certificates approved for local exchange service providers; and 91-1 emergency telephone service.

A. Pending Issues

In addition to the orders that the Commission has entered this year, several important proceedings are underway which may result in the adoption of new policies in 2001. The advent of competition has also brought about considerable litigation between the Commission, the telecommunications carriers and other parties. Some of the significant dockets include:

?? Docket 98-0396: Commission investigation of Illinois Bell Telephone Company's compliance with the Commission's order in Docket 96-0486/0569 regarding tariffs and cost studies.

?

?? Docket 98-0860/0861: Commission investigation into Illinois Bell Telephone Company's reclassification of noncompetitive services as competitive.

?

?? Docket 99-0315: Commission investigation into Illinois Bell Telephone Company's compliance with its previous order in Docket 97-0632 regarding the Infrastructure Maintenance Fee.

?

?? Docket 99-0615: Commission investigation of Ameritech's collocation tariff.

?

?? Docket 00-0393: Ameritech's rates to competitive carriers for the High Frequency Portion of the Network Access Line.

?

?? Docket 00-0511/00-0512 (Consolidated): Verizon North and Verizon South collocation tariffs.

?

?? Docket 00-0545: Citizen's Utility Board request for an investigation into the practices of Ameritech regarding service quality standards.

?

?? Docket 00-0592: Ameritech's completion of its Operations Support Systems to provide competitive carriers the same access to Ameritech's service ordering systems as Ameritech enjoys.

?

- ?? Docket 00-0764: Citizen's Utility Board request for an investigation into Ameritech's earnings levels under the Alternative Regulation Plan.
- ?
- ?? Docket 00-0700: Commission investigation into Ameritech's Unbundled Local Switching Tariff.
- ?
- ?? Docket 00-0812: Case filed as a condition of the GTE / Bell Atlantic merger to ensure that the Company works with the Commission to reach final, approved wholesale service, Unbundled Network Element, Interconnection, Transport, and Termination rates for Verizon.
- ?
- ?? Finally, three separate ongoing cases have been opened in an effort to update the Commission's Administrative Rules. Those being considered are: Code Part 790 (Interconnection), Part 791 (Cost of Service), and Part 792 (Imputation).

B. Competitive Service Provision

The classification of a service as competitive allows the provider greater flexibility in the pricing of the service. Carriers are able to decrease rates for competitive services upon notice to the Commission. They may increase rates for competitive interexchange services upon notice to the Commission and all affected customers. Competitive service rate increases must follow procedures for increases in noncompetitive service rates. The Commission may not suspend the offering of any service declared competitive. The Commission may, however, investigate the appropriateness of the classification and/or the rates of a competitive service. Following such an investigation, the Commission may find and order modifications in such classification. Services submitted and approved under the local companies' competitive service classification are listed in the table that follows:

| COMPANY | COMPETITIVE SERVICES |
|--------------------|---|
| Verizon NORTH | MESSAGE TOLL SERVICE SWITCHED DATA SERVICE GTE EASY SAVINGS/MEAS. & FLAT CONTROL LINK DIGITAL CHANNEL SERVICE GTE BETWEEN FRIENDS GTE ONE EASY PRICE CENTRANET SERVICE ISDN ATM OPTICAL NETWORKING SERVICE FRAME RELAY |
| Verizon SOUTH | MESSAGE TOLL SERVICE GTE EASY SAVINGS/MEAS. & FLAT GTE BETWEEN FRIENDS GTE ONE EASY PRICE CENTRANET SERVICE |
| AMERITECH ILLINOIS | IIN CENTREX SWITCH SERVICE CENTREX SERVICE (BASIC) AMERITECH DS1 & DS3 ISDN CENTREX HIGH CAPACITY SERVICE PSN INTRAMSA 800 SERVICE BROADBAND ANALOG SERVICE AUTOMATIC METER READING AMERITECH FDDI SERVICE AMERITECH BASE RATE DS1 & DS3 SPEED CALLING HOST INTERCON SERVICE LAN INTERCONN SERVICE TOLL RESTRICT WIDE NTWRKG SERVICE PAYPHONE SERVICES BUSINESS USAGE SERVICE BUSINESS COMPETITIVE DECLARATION RESIDENCE COMPETITIVE DECLARATION PRIVATE LINE DA & INFORMATION CALL COMPLETION BUSINESS OS CALLING CARD AMERITECH CUSTOMIZED VIDEO SERVICE BASELINE 3-1-1 INMATE OPERATOR ASSISTED CALL SURCHARGE AMERITECH COMPLETELINK NATIONAL DIRECTORY ASSISTANCE CALL SERVICE ENSEMBLE |

| | |
|----------------------------------|---|
| | ANYTIME RATE CALLING PLAN CONSTRUCTION CHARGES FOR DEVELOPMENTS |
| ICTC | CENTREX SERVICE AUTOMATIC CALL DISTRIBUTION PRAIRIE LEARNING CONNECTION DISTANCE LEARNING NETWORK SERVICE VOICE MESSAGING SERVICE |
| GALLATIN RIVER COMMUNICATIONS | HIGH CAPACITY DIGITAL ISDN SERVICE |

C. Increase in Number of Local Exchange Service Providers

As reported earlier in this annual report, 45 new local exchange service providers have received authority to provide switched, facilities-based local service in Illinois.

The Commission, in its decisions to certify CLECs, anticipates that competition will result and will translate into less costly and improved service for customers. Further discussion of this issue can be found elsewhere in this report.

D. 9-1-1 Emergency Services

The number 9-1-1 is a "Universal Emergency Telephone Number" designated for public use throughout the United States. In 1975, the Illinois General Assembly, recognizing the need for 9-1-1 services in Illinois, passed Public Act 1092 which established the state 9-1-1 program. Under the program, communities and counties are able to establish and operate 9-1-1 emergency telephone service upon Commission approval. The 9-1-1 Act was amended in 1987 to provide municipalities and counties with a means to fund 9-1-1 systems by imposing a surcharge on the telephone bills of local exchange carrier customers who live in the area served by the 9-1-1 system. However, the communities may impose such a surcharge only if approved by local referendum, except for municipalities with a population over 500,000, who may impose a surcharge up to \$1.25 without the referendum requirement. Since enactment of this funding mechanism, 74 counties and 133 municipalities in Illinois have passed referenda for the implementation and/or upgrade of a 9-1-1 system.

The Telecommunications Division of the Commission is responsible for administering the 9-1-1 program. The 9-1-1 Program disseminates information concerning the benefits of 9-1-1 systems and assists local units of government in developing, designing, and implementing 9-1-1 systems that meet the unique requirements of individual communities. From January 1, 2000, to December 31, 2000, the Commission granted Orders of Authority to Operate or Amending Orders to 19 9-1-1 systems. Presently, 98% of the state's population and 76% of the state's land area are served by 9-1-1 systems which consist of 11 Basic and 194 Enhanced 9-1-1 Systems.

The Commission's 91-1 Program Staff continues to work with public interest groups, local government, and the telecommunications industry to resolve technical issues with respect to Private Branch Exchanges (PBX), centrex type service, competitive local exchange carriers, local number portability requirements for dealing with hearing impaired, telecommunications services for the handicapped with 9-1-1 systems, et al. Furthermore, the Commission Staff continues to work with all parties to resolve the issues surrounding providing statewide wireless 9-1-1 telecommunications service.

The 83 Illinois Administrative code Part 725 (Standards of Service Applicable to 9-1-1 Emergency Systems) was adopted in 1979 and amended most recently in 1996. The structural and technological advances in the telecommunications industry have prompted the Staff to consider additional revisions to the Code Part. As a result, numerous workshops have been held to listen to the concerns of representatives from the industry, 9-1-1 systems and Staff. When the informal workshops are no longer productive or when all of the issues have been addressed, the Commission will initiate a rulemaking to formally adopt revised rules. In addition, the Emergency Telephone System Act was amended requiring the Commission to set standards concerning private business switch and enhanced 9-1-1 requirements. Three workshops were held and Staff initiated an emergency rulemaking in Docket 99-0667. The Commission approved the emergency rules for private business switch service on December 15, 1999. The Commission finalized this rule in May, 2000 and business entities were required to comply with the legislation and requirements by July 1, 2000. Commission Staff conducted numerous conferences with the public and private sectors to educate and consult the parties in meeting the requirements of the amended Act.

Legislation concerning wireless 9-1-1 implementation and funding was passed in Illinois during the 1999 veto session. This legislation requires the Commission to set standards for the provisioning of Statewide wireless 9-1-1 service. Staff held two workshops with the various parties and completed the development of a rule, during the last quarter of the year 2000, which established administrative, technical and operational guidelines.

Also, Staff managed and coordinated with the respective County/Municipal authorities, ten new system applications, twelve major modification petitions and six call box waivers.

V. Section 13-801(e)--Recommendations for Legislative Change

- (e) Recommendations for legislative change which are adopted by the Commission and which the Commission believes are in the interest of Illinois telecommunications customers.

The Commission's legislative agenda for the first year of the 92nd General Assembly is currently being formulated. A detailed discussion of specific proposals under consideration would be premature at this time.